

Banpu Public Co Ltd (BANPU TB) - BUY

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News Update**China goes to war with coal price**

- **Futures market intervention**
- **“Voluntary” price cap by coal miners**
- **Actual demand/supply could remain tight**
- **BANPU overly punished amidst coal price correction**

China's National Development and Reform Commission (NDRC) has intensified its effort to bring down the sky-high coal price.

- **Futures market intervention:** Trading margins on Zhengzhou Commodity Exchange will be increased to 40% from 30% for Nov/Dec/Jan contracts and to 30% from 16% for longer-dated contracts. Trading fees will also be raised by 50%. This, coupled with likely other unannounced measures, has led to a 65% decline in the number of contracts outstanding for the most active contract (January 2022), from over 80k contracts (representing 8m tons coal) in mid-October to just over 30k contracts by last Friday's close. Futures prices have tumbled along the way as a large number of positions got unwound. The January 2022 contract settled at CNY 1,020/ton as of Friday's close, nearly halved from its peak in the preceding week.
- **Widening gap between futures and spot prices:** The government has suspended price reports for several key coal indices starting in May. As such, the market has become much less transparent. Still, the gap between futures prices and spot prices seems to have widened significantly. As of the middle of last week, Reuters/Refinitiv was reporting spot price of CNY2,100/ton when futures price for January settled at less than CNY1,200/ton.
- **“Voluntary” price cap by coal miners:** A handful of major state-run coal miners in Shanxi province will “voluntarily” cap mine-mouth coal price at CNY 1,200/ton (\$188/ton) based on 5,500 kcal/kg coal specification. This is down from as much as CNY 1,500/ton before the meeting with NDRC on 27-28 October. The mine-mouth cap of CNY 1,200/ton implies coal price at the port of close to CNY 1,500/ton (\$234/ton).
- **NDRC social media updates:** The NDRC has been using social media platforms to communicate its messages directly to the market even during trading hours—an unprecedented move. In its latest message, the NDRC updated that coal stockpiles at power plants have increased by 25m tons from the end of September to over 100m tons currently. This is equivalent to about 10 days of consumption. The NDRC also said it sees further room for coal price to fall based on its survey of production costs.
- **But what about actual supply?:** The NDRC targets coal production of 12m tons per day (tpd) this winter, up from 11.1m tpd average production in September. Production has indeed been creeping up, from about 10.4m tpd in the second half of September to about 11.6m tpd as of mid-October. Still, this represents just 2-3% growth y-y as production in November-December of 2020 already averaged 11.7m tpd. With demand having grown by 10-15% y-y in 2021, we think coal supply could remain tight for the rest of this winter.

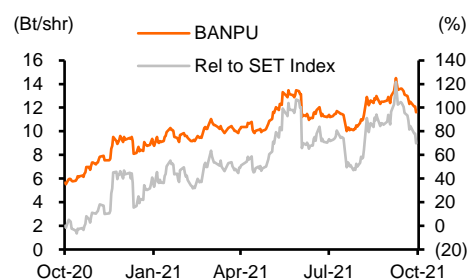
Key Valuations

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Revenue	71,332	103,657	111,621	108,009
Net profit	(1,786)	10,111	13,044	11,744
Norm net profit	(4,122)	10,111	13,044	11,744
Norm EPS (Bt)	(0.7)	1.6	1.9	1.7
Norm EPS gr (%)	na	na	21.5	(10.0)
Norm PE (x)	na	7.2	5.9	6.6
EV/EBITDA (x)	20.9	5.3	4.8	4.8
P/BV (x)	1.1	1.0	0.9	0.8
Div. yield (%)	2.2	5.2	6.8	6.1
ROE (%)	na	14.4	15.8	13.1
Net D/E (%)	163.4	117.1	112.3	92.0

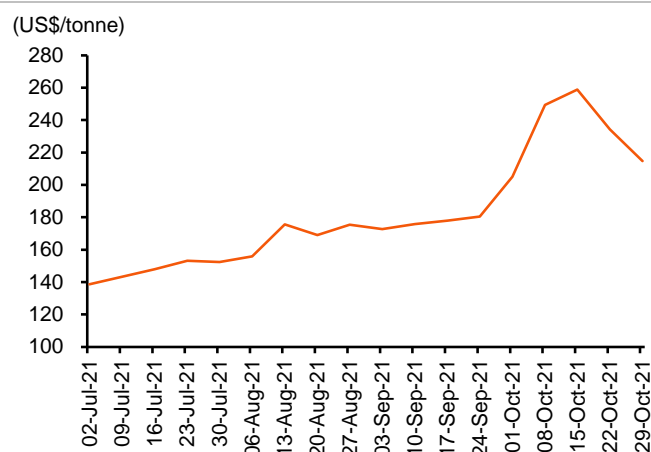
Source: Thanachart estimates

Stock Data

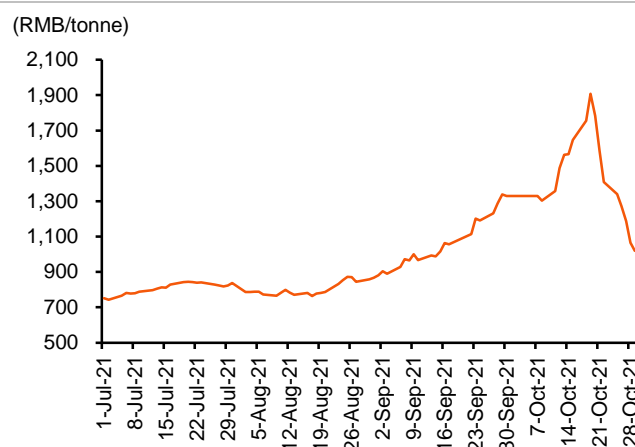
Closing price (Bt)	11.40
Target price (Bt)	20.00
Market cap (US\$ m)	2,325
Avg daily turnover (US\$ m)	55.2
12M H/L price (Bt)	14.50/5.52

Price Performance

Source: Bloomberg

Ex 1: Newcastle Spot Coal Price

Source: Bloomberg

Ex 2: Zhengzhou Coal Futures (January 2022 Contract)

Source: Bloomberg

For BANPU, we think the stock has been overly punished in recent weeks.

- **Less than 2x P/E at spot coal and gas prices:** While we do not expect coal price to remain above \$200/ton, we also do not think the stock has come anywhere near reflecting the strong coal price outlook. If we were to plug in spot prices (\$210/ton for coal and \$5.5/mmbtu for gas) into our model, BANPU's earnings would exceed Bt45bn, implying a P/E of just 1.7x. Even with more "modest" assumptions such as \$120/ton coal and \$4.5/mmbtu gas prices, earnings would still exceed Bt20bn per year, implying the stock is trading at just 3.7x P/E currently.
- **It's not all about coal:** We think investors have also been too heavily focused on coal price movement and have not factored in other positive drivers for BANPU. For instance, we believe the gas price in the US will remain elevated as exports of LNG continue to grow. Valuations of gas assets in the US have also gone up many folds in the past 2 years. For instance, valuation of gas assets in Haynesville shale play (located not too far from BANPU's Barnett shale asset in East Texas) has gone up from \$3,000 per acre in 2019 to nearly four times as much in the most recent deals. Recent transactions in the Marcellus shale patch has also pointed to valuation of about \$10,000 per acre. As such, we think BANPU's gas asset (over 50k acres in Marcellus and 350k acres in Barnett) would be valued at least \$3.5-4.0bn in an arms-length transaction today compared to just \$1.1bn that the company had paid for them over the past 5 years.
- **Strong 3Q-4Q21F are potential catalysts:** We expect strong sequential earnings growths for BANPU in 3Q-4Q21F, driven by stronger coal and gas prices as well as higher coal output.

Ex 3: Normalized Annual Profit (Bt bn) As A Function Of Coal And Gas Prices

Coal price (US\$/tonne)	Gas price (US\$/mmbtu)							
	3.0	3.5	4.0	4.5	5.0	5.5	6.0	6.5
100	11.1	12.7	14.3	16.0	17.6	19.2	20.8	22.4
110	13.5	15.1	16.7	18.4	20.0	21.6	23.2	24.8
120	15.9	17.5	19.1	20.8	22.4	24.0	25.6	27.2
130	18.3	19.9	21.6	23.2	24.8	26.4	28.0	29.6
140	20.7	22.3	24.0	25.6	27.2	28.8	30.4	32.0
150	23.1	24.7	26.4	28.0	29.6	31.2	32.8	34.5
160	25.5	27.2	28.8	30.4	32.0	33.6	35.2	36.9
170	27.9	29.6	31.2	32.8	34.4	36.0	37.6	39.3
180	30.3	32.0	33.6	35.2	36.8	38.4	40.1	41.7
190	32.8	34.4	36.0	37.6	39.2	40.8	42.5	44.1
200	35.2	36.8	38.4	40.0	41.6	43.2	44.9	46.5
210	37.6	39.2	40.8	42.4	44.0	45.7	47.3	48.9
220	40.0	41.6	43.2	44.8	46.4	48.1	49.7	51.3
230	42.4	44.0	45.6	47.2	48.8	50.5	52.1	53.7
240	44.8	46.4	48.0	49.6	51.3	52.9	54.5	56.1
250	47.2	48.8	50.4	52.0	53.7	55.3	56.9	58.5

Sources: Company data, Thanachart estimates

Ex 4: Implied PE (Using Basic EPS)

Coal price (US\$/tonne)	Gas price (US\$/mmbtu)							
	3.0	3.5	4.0	4.5	5.0	5.5	6.0	6.5
100	7.0x	6.1x	5.4x	4.8x	4.4x	4.0x	3.7x	3.4x
110	5.7x	5.1x	4.6x	4.2x	3.9x	3.6x	3.3x	3.1x
120	4.8x	4.4x	4.0x	3.7x	3.4x	3.2x	3.0x	2.8x
130	4.2x	3.9x	3.6x	3.3x	3.1x	2.9x	2.8x	2.6x
140	3.7x	3.5x	3.2x	3.0x	2.8x	2.7x	2.5x	2.4x
150	3.3x	3.1x	2.9x	2.8x	2.6x	2.5x	2.3x	2.2x
160	3.0x	2.8x	2.7x	2.5x	2.4x	2.3x	2.2x	2.1x
170	2.8x	2.6x	2.5x	2.4x	2.2x	2.1x	2.0x	2.0x
180	2.5x	2.4x	2.3x	2.2x	2.1x	2.0x	1.9x	1.9x
190	2.4x	2.2x	2.1x	2.1x	2.0x	1.9x	1.8x	1.7x
200	2.2x	2.1x	2.0x	1.9x	1.9x	1.8x	1.7x	1.7x
210	2.1x	2.0x	1.9x	1.8x	1.8x	1.7x	1.6x	1.6x
220	1.9x	1.9x	1.8x	1.7x	1.7x	1.6x	1.6x	1.5x
230	1.8x	1.8x	1.7x	1.6x	1.6x	1.5x	1.5x	1.4x
240	1.7x	1.7x	1.6x	1.6x	1.5x	1.5x	1.4x	1.4x
250	1.6x	1.6x	1.5x	1.5x	1.4x	1.4x	1.4x	1.3x

Sources: Company data, Thanachart estimates

Ex 5: Implied PE (Assume Full Dilution From Warrant Exercises)

Coal price (US\$/tonne)	Gas price (US\$/mmbtu)							
	3.0	3.5	4.0	4.5	5.0	5.5	6.0	6.5
100	10.4x	9.1x	8.1x	7.3x	6.6x	6.0x	5.6x	5.2x
110	8.6x	7.7x	6.9x	6.3x	5.8x	5.4x	5.0x	4.7x
120	7.3x	6.6x	6.0x	5.6x	5.2x	4.8x	4.5x	4.2x
130	6.3x	5.8x	5.4x	5.0x	4.7x	4.4x	4.1x	3.9x
140	5.6x	5.2x	4.8x	4.5x	4.3x	4.0x	3.8x	3.6x
150	5.0x	4.7x	4.4x	4.1x	3.9x	3.7x	3.5x	3.4x
160	4.5x	4.3x	4.0x	3.8x	3.6x	3.4x	3.3x	3.1x
170	4.1x	3.9x	3.7x	3.5x	3.4x	3.2x	3.1x	2.9x
180	3.8x	3.6x	3.4x	3.3x	3.1x	3.0x	2.9x	2.8x
190	3.5x	3.4x	3.2x	3.1x	2.9x	2.8x	2.7x	2.6x
200	3.3x	3.1x	3.0x	2.9x	2.8x	2.7x	2.6x	2.5x
210	3.1x	3.0x	2.8x	2.7x	2.6x	2.5x	2.4x	2.4x
220	2.9x	2.8x	2.7x	2.6x	2.5x	2.4x	2.3x	2.3x
230	2.7x	2.6x	2.5x	2.4x	2.4x	2.3x	2.2x	2.2x
240	2.6x	2.5x	2.4x	2.3x	2.3x	2.2x	2.1x	2.1x
250	2.5x	2.4x	2.3x	2.2x	2.2x	2.1x	2.0x	2.0x

Sources: Company data, Thanachart estimates

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